



山東羅欣藥業股份有限公司

Shandong Luoxin Pharmacy Stock Co., Ltd.*

(a joint stock limited company established in the People's Republic of China with limited liability)

Stock Code: 8058



THIRD QUARTERLY REPORT 2012

* For identification purposes only



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This report, for which the directors (the “Directors”) of Shandong Luoxin Pharmacy Stock Co., Ltd. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.



SUMMARY

- The Group's sales for the nine months ended 30 September 2012 was RMB1,614,683,000, representing an increase of 37.90% when compared with that of the corresponding period of last year.
- The Group's profit attributable to shareholders for the nine months ended 30 September 2012 was RMB362,613,000, representing an increase of 10.74% when compared with that of the corresponding period of last year.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2012.

THIRD QUARTERLY RESULTS FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2012 (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated third quarterly results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30 September 2012 (the "Period") and the comparative figures of the corresponding period of 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2012

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Turnover	3	609,706	390,111	1,614,683	1,170,883
Cost of sales		(191,278)	(146,023)	(545,010)	(452,987)
Gross profit		418,428	244,088	1,069,673	717,896
Other revenue	3	6,149	1,605	9,481	4,466
Other income		7,945	3,745	11,856	8,124
Selling and distribution expenses		(257,187)	(119,090)	(573,778)	(306,075)
General and administrative expenses		(34,618)	(19,208)	(89,276)	(46,825)
Share of profit of an associate		—	2,227	—	7,492
Profit before taxation		140,717	113,367	427,956	385,078
Taxation	4	(21,156)	(16,738)	(65,348)	(57,503)
Profit for the Period		119,561	96,629	362,608	327,575
Other comprehensive income for the Period, net of tax		—	—	—	—
Total comprehensive income for the Period		119,561	96,629	362,608	327,575
Profit attributable to:					
Owners of the Company		119,323	96,553	362,613	327,432
Non-controlling interests		238	76	(5)	143
		119,561	96,629	362,608	327,575



	Unaudited		Unaudited		
	Three months ended		Nine months ended		
	30 September		30 September		
	2012	2011	2012	2011	
Notes	RMB'000	RMB'000	RMB'000	RMB'000	
Total comprehensive income attributable to:					
Owners of the Company	119,323	96,553	362,613	327,432	
Non-controlling interests	238	76	(5)	143	
	<u>119,561</u>	<u>96,629</u>	<u>362,608</u>	<u>327,575</u>	
Earnings per share attributable to Owners of the Company (RMB) – Basic and diluted	6	<u>19.57 cents</u>	<u>15.84 cents</u>	<u>59.48 cents</u>	<u>53.71 cents</u>



NOTES TO FINANCIAL STATEMENTS

For the nine months ended 30 September 2012

1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "PRC") on 14 December 1995 and was converted into a joint stock co-operative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company with a registered capital of Renminbi ("RMB") 46 million by way of promotion. Subsequent to the above reorganisation, the name of the Company was changed to Shandong Luoxin Pharmacy Stock Co., Ltd. The H shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited since 9 December 2005.

The Company's registered office is located at Luoqi Road, High and New Technology Experimental Zone, Linyi City, Shandong Province, the PRC.

The principal activities of the Group are manufacturing and selling of pharmaceutical products.

The unaudited condensed consolidated third quarterly financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These unaudited condensed consolidated third quarterly financial statements have been approved for issue by the Board on 6 November 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated third quarterly financial statements have been prepared in accordance with the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on GEM. The accounting policies adopted are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2011.

The unaudited condensed consolidated third quarterly financial statements have been prepared under historical cost basis except certain financial assets and financial liabilities, which are measured at fair values.

3. TURNOVER AND OTHER REVENUE

The Group currently operates in one business segment in the manufacturing and sales of pharmaceutical products in the PRC. A single management team reported to the chief operating decision maker who comprehensively manages the entire business. The reportable operating results report to the chief operating decision maker are net profit of the Group and the reportable assets and liabilities report to the chief operating decision maker are the Group's assets and liabilities.

Turnover and other revenue recognised are as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Turnover, net				
Sales of manufactured pharmaceutical goods	609,706	390,111	1,614,683	1,170,883
Other revenue				
Interest income	6,149	1,605	9,481	4,466
Total revenue	615,855	391,716	1,624,164	1,175,349

4. TAXATION

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
PRC enterprise income tax	21,156	16,738	65,348	57,503

No provision for Hong Kong profits tax has been made as the Group did not carry out any business in Hong Kong during the Period.

The Group is subject to the PRC enterprise income tax at a rate of 15%.

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2012 (2011: Nil).



6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2012 is based on the unaudited net profit of approximately RMB362,613,000 and the weighted average number of approximately 609,600,000 ordinary shares in issue during the Period.

The calculation of basic earnings per share for the nine months ended 30 September 2011 is based on the unaudited net profit of approximately RMB327,432,000, and the weighted average number of approximately 609,600,000 ordinary shares in issue during the period.

Diluted earnings per share is the same as the basic earnings per share since there were no dilutive events existed during the nine months ended 30 September 2012 and 2011.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

As at 30 September 2012, the Group has financial assets at fair value through profit and loss of RMB200,000,000 (as at 30 September 2011: RMB100,000,000).

The financial assets at fair value through profit or loss represent two participation notes linked to certain bonds, beneficial rights of trusts and currencies in the PRC.

One of the two participation notes of RMB100,000,000 matured on 1 November 2012 and the other one will mature on 17 September 2013.

8. SHAREHOLDERS' FUND

	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Retained earnings	Attributable to owners of the Company	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011, audited	31,139	30,493	6,033	992,767	1,060,432	1,534	1,061,966
Total comprehensive income	-	-	-	327,432	327,432	143	327,575
Dividend paid	-	-	-	(30,480)	(30,480)	-	(30,480)
At 30 September 2011, unaudited	31,139	30,493	6,033	1,289,719	1,357,384	1,677	1,359,061
At 1 January 2012, audited	31,139	30,493	6,033	1,390,394	1,458,059	6,662	1,464,721
Total comprehensive income	-	-	-	362,613	362,613	(5)	362,608
Dividend paid	-	-	-	(121,920)	(121,920)	-	(121,920)
At 30 September 2012, unaudited	31,139	30,493	6,033	1,631,087	1,698,752	6,657	1,705,409



DIVIDENDS

On 13 March 2012, the Board recommended the payment of a final dividend of RMB0.20 per share in respect of the year ended 31 December 2011 to shareholders whose names appear in the register of members of the Company on 21 May 2012. This proposed final dividend was approved by the shareholders of the Company at the annual general meeting held on 15 May 2012.

The Board does not recommend the payment of any interim dividend for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

In 2012, the pharmaceutical industry in the PRC will continue to be promising as the government proactively carries forward the deepening of medical reforms, tightens supervision on and increase the funding for the pharmaceutical industry, advances basic public health services, directs more government spending to medical and healthcare on an annual basis, expands medical insurance coverage, improves rural health services and upgrades the new rural cooperative medical services, along with contributing factors such as the aging population and the rapid urbanisation as well as the steady growth of global pharmaceutical market.

As a leading modern pharmaceutical enterprise in the PRC, the Group has always been committed to its core strategies, i.e. enhancing capabilities in technology innovations, research and development, distribution and production, and striving to provide reliable, high-technology and high value-added pharmaceutical products. During the Period, the Group fully leveraged on the opportunities arising from market expansion and adjusted to market demands by investing additional resources to enhance its productivity and technologies and expedite new product development. At the same time, the Group has been keen on tapping into a broader market to increase its market share so as to boost its growth both in turnover and earnings, with a view to laying a solid foundation for sustainable development of the Group in the future.



Business Review

For the nine months ended 30 September 2012, although the market situation experienced pressure as a result of the implementation of a number of policies, such as the tendering of essential drugs, the new GMP, the drug price reduction and the restriction on the use of antibiotics, the Group has consistently adhered to its established development strategies and the targets of the Twelfth Five-Year Plan, and sustained balanced and healthy development of the research and development, management, production, human resources and market network of the Group. The outstanding results achieved were attributable to the support and cooperation of all shareholders, customers, suppliers, business partners and the public, as well as the concerted and unremitting efforts of the management and the staff of the Group. Based on the current achievements, the Group will further strengthen its research and development capabilities and expand its market network to enhance its brand awareness and the Group's competitiveness, so as to build up an internationally renowned pharmaceutical brand.

Research and Development

1. Building a platform for technology research and development

During the Period, the Company was approved to establish a national and local joint engineering laboratory by the National Development and Reform Commission. Prior to the Period, the Group has established or been recognised as the "Industrial Model Enterprise in the National Integrated Platform for New Pharmaceutical Research, Development and Technology (Shandong)" (國家綜合性新藥研發技術大平台(山東)產業化示範企業), the "National Post-Doctoral Research Workshop" (國家博士後科研工作站), "Key High-Tech Enterprise under the State Torch Program" (國家火炬計劃重點高新技術企業), the "Shandong Key Lyophilized Powder Injection Pharmaceutical Laboratory" (山東省凍乾粉針劑藥物重點實驗室), the "Shandong Lyophilized Powder Injection Pharmaceutical Engineering Laboratory" (山東省凍乾粉針劑藥物工程實驗室), the position of "Taishan Scholar – Pharmaceutical expert consultant" (泰山學者—藥學特聘專家) and the "Enterprise Academician Workstation of Shandong Province" (山東省企業院士工作站). All the above have built a stronger platform for talent introduction, research and development and technology improvement, which will further strengthen the research and development capabilities and overall competitiveness of the Group.



2. *New products and patents*

During the Period, the Group was applying for 28 invention patents in the PRC. As of 30 September 2012, the Group had 59 patents, of which 49 were invention patents in the PRC.

During the Period, the Group was granted four Drug Manufacturing Certificates, adding the total to 274 as at 30 September 2012.

During the Period, the Group was granted three New Drug Certificates, adding the total to 46 as at 30 September 2012.

Production and Management

1. The Group continued to implement effective strategies across seven integral parts of its operations, namely management, culture, corporate organisation, capital operation, science and technology innovation, human resources and marketing. These strategies have effectively contributed to the development of the Group and further enhanced its risk controlling capabilities and overall strengths. Since 2006, the Group has been named as one of the “Top Ten Pharmaceutical Enterprises with Growth Potential” (十大最具成長力藥企) in China and “Top 100 Pharmaceutical Companies in China” (中國製藥工業百強企業). Since 2011, the Group has been named as one of the “The Third Top 20 Most Competitive Listed Pharmaceutical Companies in China” (第三屆中國最具競爭力醫藥上市公司20強) by China Pharmaceutical Enterprise Management Association, as well as the “Champion of the 2011 Best Industrial Enterprise for Product Line of Pharmaceutical Research and Development in China” (2011年中國醫藥研發產品線最佳工業企業第一名) by the Ministry of Industry and Information Technology of the PRC. These recognitions demonstrated the growing comprehensive strength of the Group.

2. *Construction of production facilities*

(1) Pharmaceutical preparations: With the Drug Manufacturing Certificate (藥品生產許可證) in place, Shandong Yuxin Pharmacy Co., Ltd. has completed the construction of its infusion workshop and ancillary facilities, and is speeding up the construction of its solid dosage workshop (in compliance with European Union certification standards) and Lyophilized Powder Injection workshop and solid dosage workshop (both in compliance with the new GMP standard of China).



- (2) Pharmaceutical raw materials: Shandong Hengxin Pharmacy Co., Ltd. is speeding up the construction of its pharmaceutical raw materials project, the first phase of which is expected to be completed and commence operations in 2012.

3. *External Investments*

During the Period, the Company, Fei County People's Hospital (費縣人民醫院) and Linyi People's Hospital (臨沂市人民醫院) have entered into a cooperation agreement to jointly establish the Second People's Hospital of Fei County (費縣第二人民醫院), with a proposed investment of RMB40 million.

Sales and Marketing

The Group continued to integrate sales resources and build up an outstanding sales team to increase the market share and the competitiveness of its products. At present, the Group has built an extensive and seamless sales network throughout China under a well-established marketing management system, accelerated the development of the rural market, and built an OTC sales network, aiming to build the third terminal direct sales network.

Financial Review

For the nine months ended 30 September 2012, the Group's unaudited turnover was approximately RMB1,614,683,000, representing an increase of approximately 37.90% from approximately RMB1,170,883,000 for the corresponding period of last year. The increase was attributable to the Group's launch of products with high added values, upgrade of product portfolio and acceleration of the development of a sales network to increase the market share of its products, which in turn propelled the turnover.

For the nine months ended 30 September 2012, the unaudited cost of sales was approximately RMB545,010,000, representing an increase of 20.31% from approximately RMB452,987,000 for the corresponding period of last year.



For the nine months ended 30 September 2012, the unaudited gross profit margin was 66.25%, representing an increase of 4.94% from 61.31% for the corresponding period of last year. The increase was attributable to the Company's launch of products with high added values and upgrade of product portfolio.

For the nine months ended 30 September 2012, the unaudited operating expenditure was approximately RMB663,054,000, representing an increase of 87.89% from approximately RMB352,900,000 for the corresponding period of last year. The increase of operating expenditure was due to the changes in sales mix (the sales mix was associated with different cost patterns of sales and marketing expenses) and the increase in research and development expenses for products which might be launched in the future.

For the nine months ended 30 September 2012, the unaudited profit attributable to the Shareholders was approximately RMB362,613,000, representing an increase of 10.74% from approximately RMB327,432,000 for the corresponding period of last year. Weighted average earnings per share amounted to RMB0.59 for the nine months ended 30 September 2012.

Liquidity and Financial Resources

The Group's working capital is generally financed by its internally generated cash flow. As at 30 September 2012, the Group's cash and cash equivalents amounted to approximately RMB1,125,718,000 (as at 30 September 2011: RMB780,862,000). As at 30 September 2012, the Group did not have any borrowings (as at 30 September 2011: nil).

Pledged Bank Deposits/Cash and Cash Equivalents

As at 30 September 2012, the Group had bank deposits of approximately RMB85,381,000 pledged as security for remittance under acceptance (as at 30 September 2011: nil).



Financial assets at fair value through profit and loss

As at 30 September 2012, the Group has financial assets at fair value through profit and loss of approximately RMB200,000,000 (as at 30 September 2011: RMB100,000,000). Such financial assets comprised two investments in wealth management products, each with an investment amount of RMB100,000,000, offered by licensed banks in the PRC. One of the said products has a fixed annual return rate of 5.3%, with an investment period from 26 April 2012 to 1 November 2012. The other product has a fixed annual return rate of 4.8%, with the investment period from 18 September 2012 to 17 September 2013. The relevant amounts of the financial assets, being the Group's operating cash flow surplus, were previously held by the Group as cash or bank deposits prior to the said investments, which aimed to optimise utilisation of the Group's operating cash flow surplus.

Major Acquisition and Disposal

For the nine months ended 30 September 2012, the Group did not have any major acquisition or disposal.

Significant Investment

For the nine months ended 30 September 2012, the Group did not make any significant investment.

Contingent Liabilities

For the nine months ended 30 September 2012, the Group did not have any substantial contingent liabilities.

Exchange Risk

The Group operates and conducts business in the PRC, and all of the Group's transactions, assets and liabilities are denominated in RMB.

Most of the Group's cash and cash equivalents and pledged deposits are denominated in RMB, while bank deposits are placed with banks in the PRC. Any remittance from the PRC is subject to the restrictions on foreign exchange control imposed by the PRC government.



Employees and Remuneration Policy

The Directors believe that employees' quality is the most important factor in maintaining the sustained development and growth of the Group and in raising its profitability. The Group determines its employees' salaries based on their performance, work experience and the prevailing salaries in the market, while other remuneration and fringe benefits are maintained at an appropriate level.

The Group has established a remuneration committee to make recommendations on the overall strategy for remuneration policy.

Prospects

Looking ahead, the pharmaceutical industry will become one of the priorities of national policies and thus enjoy optimistic prospects. Being one of the supported industries under the Twelfth Five-Year Plan, the pharmaceutical industry will enjoy more resources allocated by the Central Government to the pharmaceutical and medical equipment sectors, and a modern market system for the circulation of pharmaceutical products will be established during the Twelfth Five-Year Plan period so as to enhance the concentration of the industry. The Group is confident in maintaining its sustainable and healthy development.

In addition, the "Guiding Opinions on Speeding up the Restructuring of the Pharmaceutical Industry" (《關於加快醫藥行業結構調整的指導意見》) (the "Opinions") jointly published by the Ministry of Industry and Information Technology of the PRC, the Ministry of Health of the PRC and the State Food and Drug Administration of the PRC in November 2010 suggested the needs to speed up the restructuring of the pharmaceutical industry, to cultivate independent innovation capability and to enhance production concentration. The Opinions are beneficial to the development of innovative enterprises as a whole, and will present more room for the growth of competitive enterprises.



In the future, the Group will continue to pursue the strategic direction of “technology-driven enterprise with determination and efforts” under the favourable operating environment. By fully leveraging on the opportunities arising from the integration of the pharmaceutical industry, the Group will continue to expand its investment in research and development to enhance the standards in research and development as well as technologies, and to strengthen the capabilities of its internal research and development team. This will enable the Group to invent and develop more products of higher technology, better quality and higher added value. The Group also aims at reducing production cost and expanding production scale so as to achieve economies of scale, low cost of production and differentiated competitive edge. Upon the completion and commencement of production of its new plants of Yuxin and Hengxin, the Group will be able to increase its production capacity to satisfy the ever growing market demand for pharmaceutical products. The new plants will also help the introduction of new dosage forms and expand the research and development scope of new drug more effectively, thus facilitating the Group’s comprehensive business growth. The Group will also accelerate the establishment of its sales team and proactively broaden its sales network so as to enhance the market share of products and continue to improve its core competitiveness.

By applying the strategies stated above, the Group expects to make “Luoxin” an internationally renowned brand in the pharmaceutical industry. With the rapid growth in productivity and the launch of more high value-added products, the Group is confident in maintaining a steady business growth and bringing satisfactory returns to its shareholders.



APPROVAL OF FINANCIAL STATEMENTS

The unaudited financial statements of the Group for the nine months ended 30 September 2012 were approved by the Board on 6 November 2012.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 September 2012, the interests and short positions of each of the Directors and supervisors of the Company in the shares, underlying shares and debentures of the Company, as recorded in the register required to be kept by the Company under Section 352 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long position of domestic shares of the Company ("Domestic Shares"), as at 30 September 2012

Name of director	Capacity/Nature of Interest	Number of Domestic Shares	% of total issued Domestic Shares	% of Company's Share Capital
Mr. Liu Baoqi (劉保起) (Note)	Interest of controlled corporation	325,639,949	73.17%	53.42%

Note:

These 325,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group Co., Ltd. ("Luoxin Pharmacy Group", previously known as Linyi Luoxin Pharmacy Company Limited). Liu Baoqi (劉保起) ("Mr. Liu") is interested in 51.73% of the registered share capital of Luoxin Pharmacy Group. Mr. Liu is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Pharmacy Group. For the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Pharmacy Group. The total number of Domestic Shares deemed to be interested by Mr. Liu as at 30 September 2012 was 325,639,949 (representing 73.17% of total issued Domestic Shares and 53.42% of the Company's total issued share capital). On 30 June 2012, Luoxin Pharmacy Group held 320,639,949 Domestic Shares, representing 72.05% of the total issued Domestic Shares and 52.60% of the Company's total issued share capital. On 17 September 2012, Luoxin Pharmacy Group acquired 3,000,000 domestic shares from Mr. Li Xue Liang (李學良) and 2,000,000 domestic share from Mr. Wang Jian (王健), a supervisor of the Company.



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

In respect of the register of substantial shareholders (not being a Director or supervisor of the Company) required to be kept under section 336 of Part XV of the SFO shows that as at 30 September 2012, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and supervisors of the Company.

Long position of Domestic Shares, as at 30 September 2012

Name	Capacity/Nature of Interest	% of Number of Domestic Shares	% of total issued Domestic Shares	Company's Share Capital
Luoxin Pharmacy Group	Beneficial Owner	325,639,949	73.17%	53.42%
Zuo Hongmei (左洪梅)	Family interest (Note)	325,639,949	73.17%	53.42%

Note:

These 325,639,949 Domestic Shares are registered in the name of Luoxin Pharmacy Group. Luoxin Pharmacy Group is owned as to approximately 51.73% by Mr. Liu. As Mr. Liu is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Luoxin Pharmacy Group, for the purpose of the SFO, Mr. Liu is deemed to be interested in the entire 325,639,949 Domestic Shares held by Luoxin Pharmacy Group. Zuo Hongmei (左洪梅), as the wife of Mr. Liu, is taken to be interested in the entire 325,639,949 Domestic Shares that Mr. Liu is interested in.



CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in the former Appendix 15 of the GEM Listing Rules from 1 January 2012 to 31 March 2012 and complied with all the code provisions as set out in Corporate Governance Code and Corporate Governance Report contained in the existing Appendix 15 of the GEM Listing Rules (the "New CG Code") from 1 April 2012 to 30 September 2012.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") on 20 November 2005 with written terms of reference which was revised on 13 March 2012 in compliance with the New CG Code. The duties of the Audit Committee are to review and supervise the financial reporting process and the internal control policies and procedures of the Group. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Foo Tin Chung, Victor (傅天忠) (Chairman), Mr. Fu Hongzheng (付宏征) and Ms. Li Hongjian (李宏建).

The unaudited results of the Company for the Period have been reviewed by the Audit Committee.

DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted a model code of conduct for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, each of the Directors has confirmed that he/she has complied with the required standard of dealings and such code of conduct in relation to securities dealings by Directors for the Period.



PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries redeemed, purchased or sold any of the Company's listed securities during the Period.

COMPETING BUSINESS

Set out below is information disclosed pursuant to Rule 11.04 of the GEM Listing Rules:–

Luoxin Pharmacy Group

Luoxin Pharmacy Group is the controlling shareholder of the Company which holds 53.42% of the Company's total issued share capital. The chairman of the Company, Mr. Liu, is also an executive director and chairman of Luoxin Pharmacy Group and a controlling shareholder holding 51.73% of the registered capital of Luoxin Pharmacy Group.

Before a non-competition undertaking in favour of the Company was signed by Luoxin Pharmacy Group on 7 November 2002, Luoxin Pharmacy Group was engaged in the sales of chemical medicines, Chinese medicines, medical equipment and health and beauty products. Since the execution of the non-competition undertaking, Luoxin Pharmacy Group has undertaken to cease its chemical medicine business. In June 2005, Luoxin Pharmacy Group signed a supplementary non-competition undertaking whereby it will carry out its sales activities in Linyi City only and confirmed that its customers are small and medium-sized medical institutions, i.e. hospitals below county-level. The Company received from Luoxin Pharmacy Group an annual confirmation in respect of the compliance of these undertakings.

Linyi Municipal Pharmacy Group Company ("Linyi Municipal Pharmacy")

Linyi Municipal Pharmacy is a State-owned enterprise established in the PRC, holding approximately 1.42% of the registered share capital of the Company. Linyi Municipal Pharmacy is principally engaged in the sales of Chinese and chemical medicines, medical equipment and health products in Linyi City and nearby districts. To the best knowledge of the Directors, Linyi Municipal Pharmacy does not and will not engage in the development and manufacturing of medicine products and it has no research and development and production capabilities for medicine manufacturing in the PRC.



Linyi Municipal Pharmacy serves as a regional distributor in Linyi City and nearby districts, and procures medicine products from other suppliers in the PRC. The Directors advised that some medicinal products sold by Linyi Municipal Pharmacy which have the same or similar curative effects as those of the Group may be in competition with the products of the Group.

Save as disclosed above, none of the Directors, the substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

By the order of the Board
Shandong Luoxin Pharmacy Stock Co., Ltd.*

Liu Baoqi

Chairman

PRC, 7 November 2012

As at the date of this report, the Board comprises 10 Directors, of which Mr. Liu Baoqi (劉保起), Mr. Liu Zhenhai (劉振海), Ms. Li Minghua (李明華), Mr. Han Fengsheng (韓風生) and Mr. Chen Yu (陳雨) are executive Directors, Mr. Yin Chuangui (尹傳貴) and Mr. Liu Yuxin (劉玉欣) are non-executive Directors and Mr. Foo Tin Chung, Victor (傅天忠), Mr. Fu Hongzheng (付宏征) and Ms. Li Hongjian (李宏建) are independent non-executive Directors.

* *For identification purposes only*